

Message Text

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ACTION EA-09

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TAGS: EALR, ETRD, EFIN, ECON, NZ
SUBJECT: LATEST MINI BUDGET AIMS AT RESTRICTING LENDING AND
REDUCING IMPORTS

REF: (A) WELLINGTON 0322, (B) WELLINGTON 1260, (C) WELLINGTON 0821

1. ACCORDING TO AN ANNOUNCEMENT BY PRIME MINISTER
R MULDOON (IN HIS CAPACITY AS MINISTER OF FINANCE):

(A) THE IMPORT DEPOSIT SCHEME (REFTEL A) IS TO BE
EXTENDED FOR A FURTHER SIX MONTHS TO AUGUST 2, 1977.

(B) IMPORT LICENSING WILL NOT BE EXTENDED IN THE
1977-78 IMPORT LICENSING SCHEDULE. THE SCHEDULE
WILL BE SIMILAR IN STRUCTURE AND COVERAGE TO
THE 1976-77 (REFTEL B) SCHEDULE.
THE NEW SCHEDULE WILL BE RELEASED IN LATE
MARCH OR EARLY APRIL 1977 ON THOSE GOODS
SUBJECT TO CONTROL.

(C) TRADING BANKS AND FINANCE COMPANIES ARE TO
BE DIRECTED NOT ONLY TO REDUCE THE RATE OF
GROWTH OF THEIR LENDING BUT ALSO TO SHIFT
EMPHASIS OF LENDING STRONGLY TOWARD THE
PRIORITY AREAS - PARTICULARLY TO THOSE
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PAGE 02 WELLIN 04646 142354Z

WITH EXPORT POTENTIAL. LENDING TO LOW

PRIORITY AREAS WILL BE TIGHTENED MARKEDLY
(ALSO REFTEL C).

2. IN EXPLAINING THE REASON FOR THE "FINE TUNING" MEASURES ANNOUNCED, THE PRIME MINISTER SAID THE GOVERNMENT HAD UNDERTAKEN A FULL REVIEW OF THE SHORT TERM AND LONG TERM TRENDS IN THE BALANCE OF PAYMENTS. THOUGH THE EXTERNAL CURRENT ACCOUNT DEFICIT IS DIMINISHING (AND FORECASTS VARY CONSIDERABLY), THE GOVERNMENT'S BEST ESTIMATES FOR NEXT YEAR ARE SLIGHTLY MORE FAVORABLE THAN PREVIOUSLY. THERE ARE SIGNS OF THE PACE OF THE ECONOMY DIMINISHING. HE SAID NO FUNDAMENTAL POLICY CHANGES ARE REQUIRED. HE CAUTIONED THAT THE MONEY SUPPLY HAD INCREASED FAIRLY RAPIDLY AND PRIVATE SECTOR CREDIT IS EXCESSIVE.

3. MR MULDOON SAID THAT IF THERE IS NO SIGNIFICANT MODERATION IN THE RATE OF DOMESTIC CREDIT EXPANSION WITHIN A SHORT PERIOD AS A CONSEQUENCE OF THE MONETARY MEASURES HE HAD JUST ANNOUNCED, THE GOVERNMENT WOULD NEED TO CONSIDER INCREASING THE GOVERNMENT STOCK RATIOS ON FINANCE COMPANIES AND TRADING BANKS.

4. CONCERNING THE GOVERNMENT'S ACTION ON IMPORTS, THE PRIME MINISTER POINTED OUT THAT THE INCREASE IN THE PRICE OF IMPORTS (30 PER CENT IN THE JUNE 1976 YEAR) WAS THE CAUSE OF CONTINUED HIGH RATE OF IMPORT PAYMENTS, NOT AN UPSURGE IN IMPORT VOLUME.

5. WITH SPECIFIC REFERENCE TO THE IMPORT DEPOSIT SCHEME,

HE SAID THAT, ALTHOUGH IT IS LIMITED IN ITS SCOPE, (IT COVERS ABOUT \$120 MILLION WORTH OF GOODS WITH HIGH IMPORT CONTENT) IT IS MEETING ITS OBJECTIVES AND IS INFLUENCING THE ORDERING, STOCKING AND SELLING POLICIES OF IMPORTERS.

6. MR MULDOON STRESSED THAT THE ONLY LONG-TERM SOLUTION TO THE STRUCTURAL CHANGE WHICH HAS TAKEN PLACE IN THE NZ ECONOMY IS AN EXPORT LED RECOVERY
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PAGE 03 WELLIN 04646 142354Z

IN FARM PRODUCTS AND MANUFACTURED GOODS. HE SAID COOPERATIVE EFFORT IS NEEDED TO RAISE PRODUCTIVITY IN ALL SECTORS OF THE ECONOMY SO NZ WILL BE MORE COMPETITIVE IN PRODUCING, TRANSPORTING AND MARKETING FOR EXPORT. THOUGH GOVERNMENT CAN ASSIST, THE "RESPONSIBILITY" FOR ACTION RESTS ON EMPLOYERS AND EMPLOYEES".

7. COMMENT ON THE NEW "FINE-TUNING" MEASURES HAS
RANGED FROM THE CHARGE OF "TOO LITTLE, TOO LATE".
BY THE LEADER OF THE OPPOSITION, MR. ROWLING, TO
"WE BELIEVE THE GOVERNMENT HAS ITS PRIORITIES
RIGHT". BUT BY THE LARGE MOST COMMENT HAS
INDICATED AN ACCEPTANCE OF THE NEED FOR THE MEASURES
WITH AN AWARENESS THAT IF THEY FAIL NZ WILL BE IN
FOR MUCH TOUGHTER MEASURES AND/OR POSSIBLE INCREASED
HARDSHIPS. IN THE LAST ANALYSIS, MULDOON MUST
DEMONSTRATE IN 1977 THAT HIS ECONOMIC POLICIES ARE CAPABLE
NOT ONLY OF WEATHERING BUT OF OVERCOMING THE EFFECTS
OF THE CONTINUING MASSIVE (THOUGH DICREASING)
BALANCE OF PAYMENTS DEFICIT, PERSISTENT (THOUGH
DIMINISHING) INFLACTION, AND RISING IMPORT PRICES
ESPECIALLY FOR SUCH IMPORTANT COMMODITIES AS
PETROLEUM.
SELDEN

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